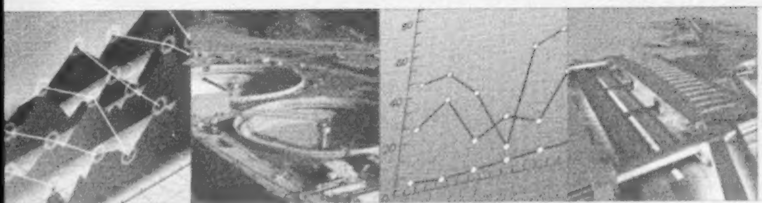
ALBERTA CAPITAL FINANCE AUTHORITY



2012

Annual Report

ACFA

ALBERTA CAPITAL FINANCE AUTHORITY

For more information, please visit our website (www.acfa.gov.ab.ca) or contact:

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By scanning this QR Code from your smart device you will be pointed to the area on our website where you can view PDFs of this and previous year's ACFA Annual Reports, Financial Statements and Highlights.

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DIRECTORS AND REPRESENTATIVES

BOARD OF DIRECTORS

Appointed	C.F. Barth	*All Representing Class A Shareholders*
	F.W. Clarke	
	L.R. Gordon	
	A. Trimbee	
	P. Whittaker	
Elected	G. Huybregts	*Representing Class B Shareholders*
	E.A. Gibbons	*Representing Class C Shareholders*
	T. Thain	*Representing Class D Shareholders*
	R. Ritter	*Representing Class E Shareholders*

REPRESENTATIVES

Audit Committee	C.F. Barth	*Chair of the Audit Committee*
	H.N. Johnsrude	*Member*
	R. Ritter	*Member*
	T. Thain	*Member*
Officers	L.R. Gordon	*Chair of the Board*
	T. Thain	*Vice-Chair of the Board*
	T. Holinski	*President and Treasurer*
	L. Epp	*Vice-President*
	J. Hui	*Corporate Secretary and Assistant Treasurer*

ORGANIZATION

Mission

To provide local authorities within the Province of Alberta with flexible funding for capital projects at the lowest possible cost consistent with the viability of the Alberta Capital Finance Authority (ACFA).

Authority

ACFA is a provincial corporation established in 1956 under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of ACFA consists of the following shares with a par value of $10 each:

- 4,500 Class A – available only to the Crown;
- 1,000 Class B – available only to municipal authorities (includes improvement districts, Metis settlements, municipal districts, counties, special areas and specialized municipalities), regional authorities (includes drainage districts, irrigation districts, regional airport authorities and regional services commissions) and health authorities (includes a non-profit corporation who owns an approved hospital, a regional health authority and a provincial health board);
- 750 Class C – available only to cities;
- 750 Class D – available only to towns and villages; and
- 500 Class E – available only to educational authorities (includes school districts and divisions, colleges, technical institutes, universities and Northland School Division)

The business of ACFA is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms for loans are prescribed in ACFA's resolution relating to the terms and conditions for lending money to shareholders.

Financing

ACFA issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations carry the unconditional guarantee of the Province of Alberta.

CHAIR'S REPORT

It is my privilege to present the 56th Annual Report of the Alberta Capital Finance Authority for the year ended December 31, 2012 and to summarize its activities over the past year.

This past year continued to be very busy, with new loans issued of $2,295 million, the most in ACFA's history. The large issuance of new loans and maturing debt necessitated the borrowing of $10,195 million, which was used to fund new loans, repay short-term debt and refinance maturing long-term debt. Short-term money markets continued to provide ACFA with great opportunity to realize cost efficiencies due to a year of historically low short-term interest rates.

In October 2012, ACFA conducted its bi-annual "Client Survey" to measure the satisfaction of shareholders with ACFA's business and communication practices. I would like to thank everyone who participated in the online survey as your comments and responses provide key input into the development of ACFA's business plan and the measurement of its success in achieving its goals. The usefulness of ACFA's website and debt tools were very much appreciated by users – 96% indicated they were very or somewhat satisfied. Shareholders who received consultation and advice on loan prepayments were markedly more satisfied at 88% than in the past (2010 – 76%). Overall, 86% of responding shareholders were satisfied (2010 – 82%) with ACFA's products and services. This is a significant improvement and the Board specifically wants to recognize the hard work of the ACFA staff in surpassing its goals of providing services to its shareholders.

ACFA continues to follow public sector accounting standards and, as such, reports derivatives at fair value and loans and debt at amortized cost. A modest improvement in the markets resulted in an unrealized gain of $26 million in ACFA's derivative value. Derivative gains and losses are only realized if a swap contract is terminated early or if there is an occurrence of counterparty default. ACFA generally does not terminate its contracts early unless a valid business reason exists to do so. ACFA recorded a surplus in 2012 of $77 million compared to a deficit of $(667) million in 2011, which was primarily a product of the unrealized loss in fair value of derivatives of $(701) million. On an operating basis, excluding the unrealized changes in fair value of derivatives, the surplus for ACFA was $51 million and $34 million for 2012 and 2011 respectively. ACFA's accumulated

deficit improved slightly in 2012 to $(628) million from $(705) million in 2011. The improvement was due to a surplus from operations and the modest unrealized gain in the fair value of derivatives of $26 million. The current accumulated deficit of $(628) million is comprised of $(813) million in accumulated changes in fair value of derivatives and $185 million in accumulated surplus before changes in fair value of derivatives.

The Board has seen a change in 2012 to the government appointees. Annette Trimbee replaced Tim Wiles as the Deputy Minister appointee for Treasury Board and Finance. Tim's financial background and professionalism added much value to the Board and I would like to thank him for his contributions over the years.

I am pleased to report that ACFA management added accounting expertise in 2012 by hiring a Senior Accounting Officer. The Senior Accounting Officer is a Chartered Accountant who brings a breadth of experience in senior accounting roles at both the provincial and municipal level.

As my appointment as the Chair and Director of ACFA is set to expire in June of this year, I would like to express my thanks to the entire team of ACFA including fellow directors, both past and present, and ACFA management and staff. Being a part of ACFA has been a great experience and I believe ACFA is positioned well for continued success.

[Original signed by Lawrence R. Gordon]

Lawrence R. Gordon
Chair of the Board
March 25, 2013

The following provides management's analysis of the financial position and results of operations of the Alberta Capital Finance Authority (ACFA) for the year ended December 31, 2012.

LOANS

During 2012, ACFA's loan portfolio increased from $10,842 million to $12,388 million, an increase of $1,546 million. New loans issued during the year totaled $2,295 million, an increase of $419 million from new loans issued in 2011, and loan repayments totaled $749 million. In 2012, interest rates for all terms increased until May, then decreased slightly and flattened out for the remainder of the year, ending a few basis points lower for most terms. Included in this review is an Analysis of New Loans Issued in 2012 by jurisdiction and purpose, a Schedule of Loans Outstanding at December 31, 2012 and a Ten Year Loan Review 2003 – 2012.

Analysis of New Loans Issued

By jurisdiction and purpose for the year ended December 31, 2012
(in thousands of dollars)

	Cities	Towns	Villages	Other	Total
Airport infrastructure	$ —	$ —	$ —	$ 930,000	$ 930,000
Sewer and water	289,638	24,482	443	94,079	408,642
Roads and sidewalks	195,936	19,672	210	18,098	233,916
Parks and recreation	140,567	21,209	—	22,045	183,821
Transit	155,051	—	—	—	155,051
Electric, gas and telephone	132,105	3,500	—	—	135,605
Municipal buildings	28,160	19,384	—	4,650	52,194
Student residences, parkade and ancillary operation	—	—	—	48,591	48,591
Equipment and machinery	38,762	1,142	114	1,634	41,652
Health	—	—	—	32,300	32,300
Land	30,200	1,092	—	—	31,292
Landfill development	28,064	—	—	899	28,963
School	—	—	—	5,000	5,000
Senior citizen lodges	—	—	—	4,182	4,182
Other	—	270	—	3,750	4,020
Total	$ 1,038,483	$ 90,751	$ 767	$ 1,165,228	$ 2,295,229

Schedule of Loans Outstanding

at December 31, 2012
(in thousands of dollars)

	Principal Outstanding 2011	January 1 to December 31, 2012		Principal Outstanding 2012
		New Loans Issued	Principal Repaid	
By Jurisdiction				
Cities	$ 6,784,897	$ 1,038,483	$ 389,377	$ 7,434,003
Specialized municipalities	543,119	21,695	28,679	536,135
Towns	419,612	90,751	38,278	472,085
Villages	16,717	767	1,954	15,530
Counties	255,717	49,960	26,767	278,910
Municipal districts	39,483	22,645	4,459	57,669
Irrigation districts and regional services commission	133,233	55,037	20,257	168,013
Metis settlements	500	—	97	403
Regional airport authorities	1,533,586	930,000	162,271	2,301,315
Health authorities	341,440	32,300	19,011	354,729
Colleges, technical institutes and universities	665,575	48,591	27,591	686,575
School districts and divisions	107,773	5,000	29,905	82,868
Total	$ 10,841,652	$ 2,295,229	$ 748,646	$ 12,388,235
By Purpose				
Municipal – general	$ 7,354,569	$ 1,143,733	$ 450,202	$ 8,048,100
Municipal – utility	836,630	135,605	58,097	914,138
ME *first!*	1,525	—	1,525	—
Airport infrastructure	1,533,919	930,000	162,283	2,301,636
Health – ancillary operation	341,440	32,300	19,011	354,729
Student residence, parkade and ancillary operation	665,575	48,591	27,591	686,575
School – core operation	107,994	5,000	29,937	83,057
Total	$ 10,841,652	$ 2,295,229	$ 748,646	$ 12,388,235

Ten Year Loan Review 2003 – 2012

(in thousands of dollars)

	2012	2011	2010
New Loans Issued During the Year By Jurisdiction			
Cities	$ 1,038,483	$ 934,531	$ 1,252,567
Specialized municipalities	21,695	6,480	206,332
Towns and villages	91,518	50,833	74,737
Counties, municipal and irrigation district, regional services commission and Metis settlements	127,642	70,331	104,018
Regional airport authorities	930,000	603,000	390,000
Health authorities	32,300	176,000	15,000
Colleges, technical institutes and universities	48,591	34,416	102,600
School districts and divisions	5,000	—	2,553
Total	**$ 2,295,229**	**$ 1,875,591**	**$ 2,147,807**
By Purpose			
Municipal	$ 1,279,338	$ 1,062,175	$ 1,637,304
ME *first!*	—	—	—
Airport infrastructure	930,000	603,000	390,350
Health – ancillary operation	32,300	176,000	15,000
Student residence, parkade and ancillary operation	48,591	34,416	102,600
School – core operation	5,000	—	2,553
Total	**$ 2,295,229**	**$ 1,875,591**	**$ 2,147,807**
Loans repaid during year	748,646	558,690	541,729
Loans outstanding at December 31	12,388,235	10,841,652	9,524,751
Debt issued during year	10,194,626	6,342,634	6,126,386
Debt repaid during year	8,750,958	5,041,780	4,526,162
Debt outstanding at December 31 (2)	12,234,586	10,798,646	9,497,846
Accumulated (deficit) surplus at December 31 (1)	(628,008)	(705,115)	(38,493)
Lending rate at December 31 *(based on 20-year term)*	2.942%	3.145%	4.124%

(1) Effective January 1, 2010, loans, debt and accumulated surplus (deficit) have been prepared in accordance with public sector accounting standards. Previously, Canadian generally accepted accounting principles were used. 2003 - 2009 results have not been restated.

(2) Debt outstanding is the contractual principal amount and excludes unamortized premiums, discounts and commission fees.

2009	2008	2007	2006	2005	2004	2003
$ 1,600,849	$ 993,947	$ 878,623	$ 619,472	$ 355,350	$ 377,445	$ 379,647
46,201	16,538	70,009	159,519	6,794	15,115	26,830
81,164	79,424	59,207	40,338	44,219	53,569	31,122
80,657	43,698	54,408	47,806	49,656	43,542	40,056
40,000	120,000	100,000	20,000	75,000	20,000	—
55,000	—	11,308	99,673	37,920	19,000	—
65,000	131,200	66,750	60,863	82,998	71,112	19,302
—	—	—	—	—	7,680	—
$ 1,968,871	**$ 1,384,807**	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**
$ 1,808,871	$ 1,133,607	$ 1,048,329	$ 861,369	$ 446,841	$ 484,135	$ 477,655
—	—	13,918	5,766	9,178	5,536	—
40,000	120,000	100,000	20,000	75,000	20,000	—
55,000	—	11,308	99,673	37,920	19,000	—
65,000	131,200	66,750	60,863	82,998	71,112	19,302
—	—	—	—	—	7,680	—
$ 1,968,871	**$ 1,384,807**	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**
640,379	432,514	505,056	446,349	500,825	397,916	410,372
7,918,673	6,590,181	5,637,888	4,902,639	4,301,317	4,150,205	3,940,658
6,895,208	2,624,881	1,551,905	1,178,396	972,000	714,500	3,137,000
5,596,477	1,701,278	835,987	570,396	832,604	475,491	2,930,523
7,899,846	6,610,928	5,678,476	4,963,963	4,355,963	4,216,567	3,977,558
75,512	(43,202)	81,826	15,674	11,673	12,664	22,406
4.395%	5.150%	4.726%	4.365%	4.569%	4.923%	5.625%

RESULTS OF OPERATIONS

ACFA's interest income on loans, including income from investments, exceeded interest expense on debt by $47 million, as the yield on the loans was slightly higher than the yield on the debt. Income before unrealized changes in fair value of derivatives was $51 million. The surplus, after recognition of unrealized changes in fair value of derivatives of $26 million, was $77 million.

As almost all derivatives are held to maturity, it is extremely unlikely that unrealized changes in fair value will be realized. Derivative gains and losses are only realized if a swap contract is terminated early or if there is an occurrence of counterparty default. ACFA generally does not terminate its contracts early unless a valid business reason exists to do so. ACFA's financing for 2012 was comprised of a mixture of short-term notes (under one year to maturity, rates resetting every three months) and fixed rate debt that was swapped to a floating rate.

ACFA's goals are to provide local authorities with flexible funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing authorities.

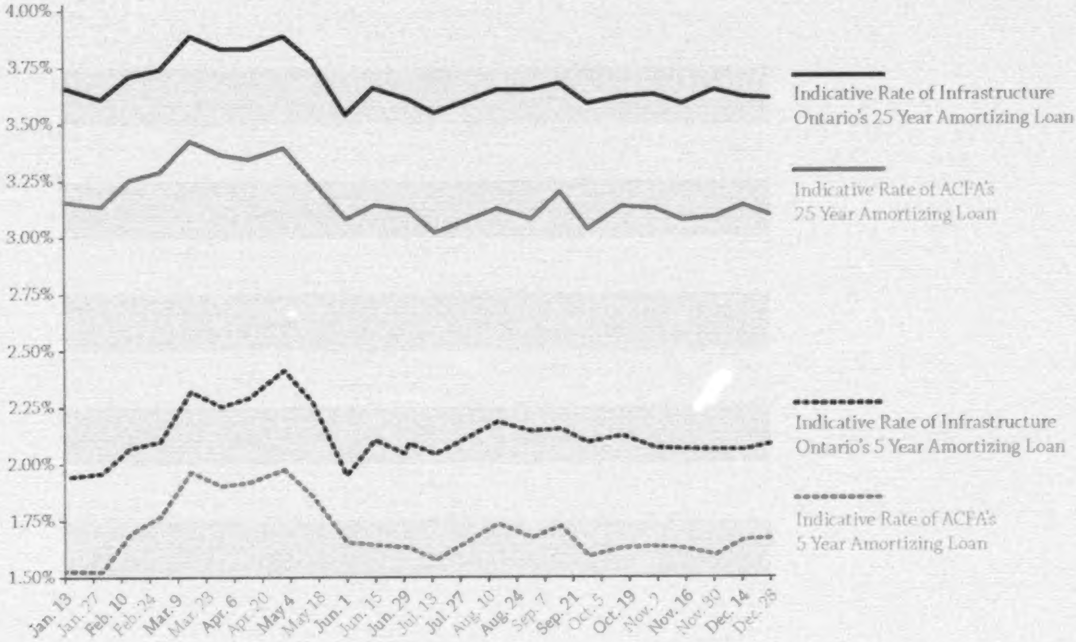
INTEREST RATES

ACFA provides fixed rate loans to its borrowers. Loan rates are based on an estimate of the interest rate at which the Province of Alberta could borrow for a bond with the same characteristics of the loan. If it is possible to fund the loan with a matching debt instrument, the actual rate of the debt instrument will be used as the loan rate.

COMPARATIVE LOAN SPREADS WITH INFRASTRUCTURE ONTARIO

In order to compare Alberta loan rates to those of Ontario municipal borrowers, rates of Infrastructure Ontario were reviewed and compared to the rates ACFA would have offered. As noted below, ACFA's rates were consistently below Infrastructure Ontario's throughout the year. The spreads between ACFA's rates and those of Infrastructure Ontario's for 5 and 25 year terms at the beginning of the year were 42 and 50 basis points respectively. The spread between ACFA and Infrastructure Ontario remained relatively consistent over the year for both 5 and 25 year terms ending the year at 41 and 52 basis points respectively.

Comparing ACFA and Infrastructure Ontario's 5 and 25 Year Lending Rates in 2012



DEBT

The contractual principal amount of ACFA's debt increased from $10,799 million to $12,235 million, an increase of $1,436 million. During the year, ACFA borrowed a total of $10,195 million consisting of $7,297 million in short-term notes and $2,898 million in mid-term to long-term debt for terms from five to seventeen years. ACFA repaid a total of $8,751 million consisting of $7,207 million in short-term notes, $1,000 million in floating rate notes and $544 million in term fixed rate debt.

For the first time in nearly 50 years, ACFA issued US dollar denominated debt (via the Province of Alberta). The debt was issued with a par value of $600 million USD. The US dollar denominated cash flows were simultaneously swapped to Canadian cash flows, thus offsetting foreign exchange risk. At the time, the US dollar issuance saved ACFA and its shareholders approximately $3.3 million, compared to a similar debt issuance denominated in Canadian dollars.

RISK MANAGEMENT

Effective risk management is essential to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. ACFA is primarily exposed to:

- Market risk;
- Interest rate risk;
- Liquidity risk;
- Operational risk; and
- Credit risk.

The President of ACFA is responsible for identifying risks and recommending the appropriate policies and framework to mitigate risks. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor adherence to these policies.

ACFA contracted an external risk management firm to provide a risk analysis report to assist in identifying inherent risks and appropriate benchmarks. The Board and management considered the report and decided an Asset Liability Committee (ALCO) should be formed to ascertain the level of risk, benchmark that risk and monitor it moving forward. The inaugural meeting of the ALCO took place in fiscal year 2013. The ALCO will work to recommend appropriate risk policy and benchmarks to the Board during 2013.

MARKET RISK

Market risk is the impact on ACFA's surplus (deficit) from changes in market factors such as interest rates and foreign exchange. ACFA requires all borrowing be denominated in Canadian dollars or borrowing in foreign currencies be swapped to Canadian dollars. The US dollar issuance completed in 2012 contained a cross currency swap that offset the foreign exchange risk on the transaction. Financial statement items impacted by changes in interest rates include interest income, interest expense and the changes in fair value of interest rate swaps. The primary source of interest rate risk is repricing risk, which arises when there is a mismatch between the maturity and repricing of interest bearing assets and liabilities. This repricing risk also results from ACFA's willingness to allow for some prepayments on existing loans.

The loan prepayment policy is structured to protect ACFA from significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. ACFA does not have the ability to prepay any of its public debt and can only prepay the Canada Pension Plan Investment Fund if it incurs a penalty based on current market rates, which would not make it economically advantageous. ACFA's loan prepayment policy is an integral part of its long-term financial planning.

INTEREST RATE RISK

Interest rate risk is the potential impact of changes in interest rates on ACFA's net interest income when maturities of its interest rate sensitive assets are not matched with maturities of its interest rate sensitive debt. ACFA mainly uses interest rate swaps for the purpose of managing its asset and liability position. ACFA's policy is to match the interest rate exposure on all new loans to the interest rate exposure of the debt used to fund these loans. In most cases, fixed interest rates on new loans and debt are swapped to floating rates so that the floating rates paid and received incorporate changes in the market rate at approximately the same time. As swap spreads narrowed somewhat in 2012, ACFA was able to utilize long-term debt issuances as a means to financing its loan and cash flow demands. However, with rates for short-term borrowing remaining very low, ACFA continued to utilize short-term notes as a funding source for some of its financing requirements.

The Board recognizes the unique risks associated with the use of derivative financial instruments and has established policies and procedures to monitor and minimize exposure to ACFA. These policies and procedures limit the type of derivative financial instruments and circumstances where they can be used, prescribe the authorities required to approve the transaction and establish the appropriate segregation of duties to reduce operational risk.

LIQUIDITY RISK

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board regularly. Surplus funds are invested short-term in the Province of Alberta's Consolidated Cash Investment Trust Fund. When required, ACFA works with the Province to obtain funding in the Canadian capital market. As of April 2011, the debt is borrowed directly by the Province, who in turn on-lends to ACFA. All ACFA borrowing is guaranteed by the Province of Alberta.

Because of ACFA's short-term borrowing activities in the past five years, made advantageous by spreads in the debt and swap markets, the term to maturity of its debt has decreased. However, ACFA recognizes it must extend the term to maturity of its debt by reducing its activity in the short-term market and increasing its activity in the long-term market. Several longer term debt issuances were executed in 2012 (10 year and 17 year) to aid ACFA in extending its term to maturity.

OPERATIONAL RISK

Operational risk is the risk associated with internal control breakdowns, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountabilities and reporting practices.

The audit of the financial statements was conducted in accordance with Canadian generally accepted auditing standards and in completion of the audit, the auditor considers internal controls relevant to ACFA's preparation and presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The objective of a financial statement audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. Accordingly, an audit would not usually identify all matters that may be of interest to management and the Audit Committee, however, any significant weaknesses identified in internal controls over financial reporting, or other non-trivial matters, are communicated to management and the Audit Committee.

CREDIT RISK

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to ACFA. Historically, ACFA has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

Credit risk on counterparty default arises with the use of derivatives. To control this risk, ACFA uses counterparty limits established for the Province and uses only counterparties believed to have a good credit standing (A+ or greater). ACFA is not exposed to credit risk for the full face value (notional amount) of the derivative contracts, but only to the potential replacement cost if the counterparties fail. Under Credit Support Annexes entered into under the Province of Alberta's derivative master agreements, counterparties or ACFA are obligated to post collateral based on established thresholds which further enhances ACFA's credit position. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. For additional information, see Note 6 – Derivative Financial Instruments in the financial statements.

FINANCIAL STATEMENTS

Alberta Capital Finance Authority
December 31, 2012

FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

Management of the Alberta Capital Finance Authority prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian public sector accounting standards and the requirements of the *Alberta Capital Finance Authority Act*.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Audit Committee oversees management's responsibilities for financial reporting, and internal control systems over financial reporting, and recommends approval of the financial statements and annual report to the Board of Directors.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Audit Committee reviewed these financial statements with the external auditor in detail before recommending their approval to the Board of Directors. The Board then approves the financial statements.

[Original signed by Troy Holinski]

President
March 25, 2013
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2012, and the statements of operations and accumulated deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
March 25, 2013
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31, 2012
(in thousands of dollars)

		2012		2011
Assets:				
Cash	$	13,254	$	40,027
Accounts receivable		8		4
Accrued interest receivable		104,373		104,924
Prepaid expenses		15		—
Loans to local authorities (Note 4)		12,388,235		10,841,652
Derivatives in favorable position (Note 6)		462,305		514,742
	$	12,968,190	$	11,501,349
Liabilities:				
Accounts payable	$	651	$	733
Accrued interest payable		29,418		29,418
Debt (Note 5)		12,233,965		10,786,470
Derivatives in unfavorable position (Note 6)		1,313,374		1,389,779
Deferred foreign exchange gain		18,726		—
		13,596,134		12,206,400
Share Capital and Accumulated (Deficit) Surplus:				
Share Capital (Note 7):				
Issued and fully paid		64		64
Accumulated (deficit) surplus (Note 8):				
Accumulated surplus before changes in fair value of derivatives		184,979		134,293
Accumulated changes in fair value of derivatives		(812,987)		(839,408)
Accumulated (deficit) and accumulated changes in fair value of derivatives		(628,008)		(705,115)
Share capital and accumulated (deficit)		(627,944)		(705,051)
	$	12,968,190	$	11,501,349

Contractual obligations and commitments are found in Note 11.
The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were approved by the Board of Directors.

[Original signed by Lawrence R. Gordon]

Lawrence R. Gordon
Chair of the Board

[Original signed by Troy Holinski]

Troy Holinski
President

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT

For the year ended December 31, 2012
(in thousands of dollars)

	Budget	2012	2011
	(Note 13)		
Interest Income:			
Loans	$ 483,876	$ 504,820	$ 467,927
Loan swaps (pay fixed receive floating)	(229,986)	(250,923)	(225,304)
Investments	300	1,019	521
	254,190	254,916	243,144
Interest Expense:			
Debt	304,081	282,098	288,870
Debt swaps (receive fixed pay floating)	(85,992)	(89,351)	(88,927)
Amortization of net discounts on debt	1,586	13,930	6,086
Amortization of commission fees	3,242	2,715	2,459
Amortization of deferred foreign exchange gain	—	(1,734)	—
	222,917	207,658	208,488
Net interest income	31,273	47,258	34,656
Other Income:			
Loan prepayment fees	—	4,378	513
Net interest income and other income	31,273	51,636	35,169
Non-Interest Expense:			
Administration and office expenses (Note 9)	1,031	950	952
Income before unrealized change in fair value of derivatives	30,242	50,686	34,217
Unrealized change in fair value of derivatives	—	26,421	(700,839)
Surplus (deficit)	30,242	77,107	(666,622)
Accumulated deficit, beginning of year	133,466	(705,115)	(38,493)
Accumulated deficit, end of year	$ 163,708	$ (628,008)	$ (705,115)

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012
(in thousands of dollars)

	2012	2011
Operating Activities:		
Interest received:		
Loans	$ 505,371	$ 460,439
Investments	1,017	521
Debt swaps (receive fixed pay floating)	87,924	95,561
Loan prepayment fees	4,378	513
Interest paid:		
Debt	(282,098)	(304,733)
Discounts paid at debt maturity	(15,042)	(7,420)
Premiums received at debt issue	33,792	—
Commission fees	(11,108)	(594)
Loan swaps (pay fixed receive floating)	(247,043)	(218,225)
Administration and office expenses	(1,049)	(869)
Cash flows from operating activities	76,142	25,193
Investing Activities:		
Loan principal repayments	748,646	558,690
Loans issued	(2,295,229)	(1,875,591)
Cash flows used in investing activities	(1,546,583)	(1,316,901)
Financing Activities:		
Debt issued	10,194,626	6,342,634
Debt redemptions	(8,750,958)	(5,041,780)
Cash flows from financing activities	1,443,668	1,300,854
Net (decrease) increase in cash	(26,773)	9,146
Cash, beginning of year	40,027	30,881
Cash, end of year	$ 13,254	$ 40,027

The accompanying notes and schedule are an integral part of these financial statements.

Note 1 – Authority

The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

Note 2 – Future Changes to Accounting Policies

In June 2011, the Public Sector Accounting Board issued a new accounting standard *PS 3450 – Financial Instruments* (PS 3450). It is effective for government organizations for fiscal years beginning on or after April 1, 2012. PS 3450 is to be applied prospectively without restatement of prior years. In the fiscal year ACFA adopts PS 3450, it must also adopt *PS 2601 – Foreign Currency Translation* and *PS 1201 – Financial Statement Presentation*. The primary changes of these new accounting standards are: changes in the fair value of derivative contracts would be included in a new statement of remeasurement gains and losses; any deferred unamortized foreign exchange gain or loss is accounted for as an adjustment in the balance of accumulated remeasurement gains and losses at the transition date; embedded derivatives are accounted for; and when a derivative is derecognized at settlement, the cumulative amount of remeasurement gains and losses is reversed and a gain or loss on disposal is recognized in the statement of operations. Management is in the process of assessing the impact of adopting the new accounting standards for the fiscal year ending December 31, 2013.

Note 3 – Significant Accounting Policies and Reporting Practices

The financial statements have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

(b) Cash

Cash includes cash on hand, demand deposits and cash equivalents, which are short-term highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of change in value. Cash equivalents have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. ACFA's cash is on demand deposit with the Province of Alberta in the Consolidated Cash Investment Trust Fund (CCITF) whose investments include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. For the year ended December 31, 2012, deposits in CCITF had a time-weighted return of 1.29% per annum (2011 – 1.26% per annum).

(c) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue is recognized on loans when earned. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(d) Debt

The carrying value of debt, including transaction costs, is recorded at cost or amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts, including underwriting commissions, arising from the issue of debt are deferred and amortized over the term of the debt using the effective interest method, and are included in the carrying value.

Interest expense on debt is recorded on an accrual basis.

(e) Derivative Contracts

Derivative contracts for interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of operations. When a financial instrument is derecognized, a gain or loss is recognized in the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis for measurement of derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

(in thousands of dollars, except share amounts)

(f) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issue and interest paid are presented in the statement of cash flows as operating activities.

(g) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long-term monetary items are deferred on the statement of financial position, and are amortized to the statement of operations over the remaining life of the monetary item on a straight line basis.

Note 4 – Loans to Local Authorities

	2012	2011
Amortized cost	$ 12,388,235	$ 10,841,652

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for nearly 72% (2011 – 76%) of all loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act* that stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed lending agreement.

(b) Regional airport authorities account for 19% (2011 – 14%) of all loan assets held by ACFA. This borrower category utilizes airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities account for the remaining 9% (2011 – 10%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2012, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 10 (b).

(in thousands of dollars, except share amounts)

Note 5 – Debt

	2012	2011
Contractual principal [a]	$ 12,234,586	$ 10,798,646
Unamortized net premiums (discounts)	15,289	(4,659)
Unamortized commission fees	(15,910)	(7,517)
	$ 12,233,965	$ 10,786,470

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011 all ACFA debt is borrowed by the Province. The Province then on-lends the money to ACFA for loan disbursement and cash management.

Debt with contractual principal of $15,000 (2011 – $61,000) is comprised of a step-up note whereby ACFA has the option of extending or calling the debt, at predetermined extension or call dates. In the event ACFA exercises its option to call or not extend the debt at the predetermined extension or call dates, the debt is redeemed at the contractual principal amount with no gain or loss to ACFA. In the event ACFA does not exercise its option to call or redeem the debt at the predetermined extension or call dates, the contractual principal amount is due at the final maturity date (Schedule 1).

For the next five years contractual debt redemption requirements, with the assumption all debt is redeemed at the maturity date, are as follows:

	Debt Redemptions
2013	$ 4,135,000
2014	656,500
2015	800,000
2016	1,500,000
2017 [a]	1,796,940
	8,888,440
Thereafter	3,346,146
	$ 12,234,586

[a] Includes $600,000 USD translated at the foreign exchange rate as of the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 10 (b).

(in thousands of dollars, except share amounts)

Note 6 – Derivative Financial Instruments

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and it is settled in the future.

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with penalty if a large loan prepayment occurs or if step-up debt is called.

An interest rate swap with an outstanding notional value of $15,000 (2011 – $61,000) related to the step-up note has the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise its option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

Interest rate swaps include cross currency swaps that receive fixed on an original notional value of $600,000 USD (2011 – Nil) and pay floating on an original notional value of $617,400 CAD (2011 – Nil).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Interest rate swaps, December 31, 2012	$ 12,931	$ 295,946	$ 3,524,549	$ 2,652,646	$ 10,230,644	$ 16,716,716
Interest rate swaps, December 31, 2011	$ 88,173	$ 31,038	$ 1,803,057	$ 1,668,868	$ 8,294,577	$ 11,885,713

(in thousands of dollars, except share amounts)

The outstanding notional amounts of the interest rate swap related to the step-up note has been included in the above table based on its maturity date rather than its first extendible date.

At December 31, 2012, derivatives in a favourable and unfavourable position, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2012	2011
Accrued interest receivable on debt swaps	$ 6,874	$ 5,447
Accrued interest payable on loan swaps	$ 44,956	$ 41,076

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 50 basis point increase in interest rates is an increase in fair value of $311,662 (2011 – $333,006).

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing.

Under the Province of Alberta's master agreement with counterparties, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty. In addition, under the agreement, several Credit Support Annexes (CSA) have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. During the year ended December 31, 2012, ACFA was required to post cash collateral on multiple occasions. The maximum amount of collateral outstanding at any given time was $15,440 (2011 – $9,688). As of December 31, 2012, there were no posted collateral amounts outstanding (2011 – Nil outstanding).

Derivative assets and liabilities are presented at gross fair value on the statement of financial position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $423,214 at December 31, 2012 (2011 – $473,208) are subject to master netting arrangements against unfavourable positions of $1,250,515 (2011 – $1,323,480) which reduces ACFA's credit exposure by an equivalent amount.

(in thousands of dollars, except share amounts)

Note 7 – Share Capital

Share capital is valued at $10 per share. Voting rights, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

Class	Restricted to	Number of Shares Authorized	2012 Issued and Fully Paid	2012 Total Dollar Amount	2011 Issued and Fully Paid	2011 Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	896	8,960	895	8,950
C	Cities	750	588	5,880	588	5,880
D	Town and villages	750	283	2,830	284	2,840
E	Educational authorities	500	83	830	83	830
Total		7,500	6,350	$ 63,500	6,350	$ 63,500

During the year, two Class B shares were issued and one was cancelled (2011 – five issued), and one Class D share was cancelled (2011 – one cancelled).

Note 8 – Capital Management

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive equity. Net assets for capital management purposes are defined as accumulated surplus excluding cumulative changes in the fair value of derivatives. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2012 were $184,979 (2011 – $134,293). Capital management objectives, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, no gains and losses are expected to be realized over the lives of these financial instruments. Normally, ACFA would not terminate swaps unless there was a valid business reason to do so.

(in thousands of dollars, except share amounts)

As such, ACFA's net assets for capital management purposes are comprised of the following:

	2012	2011
Accumulated deficit, end of year	$ (628,008)	$ (705,115)
Less: Cumulative changes in fair value of derivatives in closing accumulated deficit	(812,987)	(839,408)
Net assets for capital management purposes	$ 184,979	$ 134,293

Note 9 – Directors' and Audit Committee Fees and Related Party Transactions

Directors' and Audit Committee fees paid by ACFA are as follows:

	2012		2011	
	Number of Individuals	Total	Number of Individuals	Total
Board/ Audit Committee Chairs	2	$ 11	2	$ 17
Board/ Audit Committee Members	6	29	6	35
	8	$ 40	8	$ 52

There are two additional board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA has no employees. Its operations are managed by dedicated staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Enterprise and Advanced Education or Alberta Health, as well as the Province on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

ACFA has advanced loans to local authorities under the ME*first!* Municipal Energy Efficiency Assistance Program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment and Sustainable Resource Development. Under the Program, principal was advanced to qualifying municipalities by ACFA and repayments of principal are made by municipalities. However, the interest is paid by the Province of Alberta. The Program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2012 is principal of $Nil (2011 – $1,525), upon which interest of $13 (2011 – $132) has been recorded in interest income on loans.

Included in administration and office expenses is the amount of $705 (2011 – $672) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $145 (2011 – $229) due to related parties at December 31, 2012.

Note 10 – Financial Risk Management

In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's equity. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating.

ACFA's management is responsible for monitoring performance and reporting to the Board of Directors and recommending changes to the Derivative Policy. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of the policy.

(a) Credit Risk

Credit risk is related to the possibility the borrower or the counterparty to a financial instrument cannot fulfill its contractual obligation to ACFA.

Credit risk from borrowers is fully described in Note 4 and ACFA does not believe it has any significant credit exposure on loans.

Credit exposure with derivative counterparties is further described in Note 6.

(b) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. ACFA's interest sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest sensitive asset or liability. Non-interest sensitive assets and liabilities excluded in the tables below are: trade accounts receivable, prepaid expenses and trade accounts payable.

(in thousands of dollars, except share amounts)

The contractual principal amounts of ACFA's interest sensitive assets and liabilities by maturity/ next repricing date are summarized below, with the assumption that the step-up note is redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

Maturity/ Repricing	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Assets:						
Cash	$ 13,254	$ —	$ —	$ —	$ —	$ 13,254
Accrued interest receivable on loans	104,373	—	—	—	—	104,373
Accrued interest receivable on debt swaps [a]	6,874	—	—	—	—	6,874
Loans to local authorities	352,419	1,064,810	2,658,011	2,545,918	5,767,077	12,388,235
December 31, 2012	$ 476,920	$ 1,064,810	$ 2,658,011	$ 2,545,918	$ 5,767,077	$ 12,512,736
Loan effective rate, 2012	4.28%	4.29%	4.37%	4.37%	4.42%	4.41%
December 31, 2011	$ 689,290	$ 550,787	$ 2,418,031	$ 2,409,522	$ 4,924,420	$ 10,992,050

[a] Included in derivatives in favourable position on the statement of financial position.

Maturity/ Repricing	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Liabilities:						
Accrued interest payable on debt	$ 29,418	$ —	$ —	$ —	$ —	$ 29,418
Accrued interest payable on loan swaps [a]	44,956	—	—	—	—	44,956
Debt [b] [c] [d]	5,688,456	15,000	3,196,940	2,017,367	1,313,779	12,231,542
December 31, 2012	$ 5,762,830	$ 15,000	$ 3,196,940	$ 2,017,367	$ 1,313,779	$ 12,305,916
Debt effective rate, 2012	2.81%	3.53%	3.54%	4.04%	5.22%	4.47%
December 31, 2011	$ 6,811,494	$ 300,000	$ 1,521,500	$ 1,022,367	$ 1,213,779	$ 10,869,140
Cumulative gap 2012	$ (5,285,910)	$ 1,049,810	$ (538,929)	$ 528,551	$ 4,453,298	$ 206,820
Cumulative gap 2011	$ (6,122,204)	$ 250,787	$ 896,531	$ 1,387,155	$ 3,710,641	$ 122,910

[a] Included in derivatives in unfavourable position on the statement of financial position.

[b] Included "within one year" are various floating rate notes in the aggregate amount of $4,161,500 (2011 – $5,055,000) with rates of Canadian Deposit Offered Rate (CDOR) plus predetermined spreads.

[c] "Total" comprised of contractual principal of $12,234,586 net of discounts on short-term notes of $3,044.

[d] Included in "three to five years" is $600,000 USD translated at the foreign exchange rate as of the reporting date.

(in thousands of dollars, except share amounts)

Loan interest rate swaps (pay fixed receive floating) and debt interest rate swaps (receive fixed pay floating) with outstanding notional amounts of \$11,184,037 and \$5,532,679 respectively (2011 – \$9,094,434 and \$2,791,279 respectively) have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included are: floating rate debt loan repayments or debt maturities due with within one year; near-term cash flows; and cash.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates throughout the year with all other variables held constant would impact interest income by \$56,714 (2011 – \$46,650) and interest expense by \$55,431 (2011 – \$47,255).

(c) Liquidity Risk

Liquidity risk is the risk ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in or the CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in the Canadian market.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2012 are as follows:

Future Cash Out Flows	2013	2014	2015	2016 and Beyond	Total
Accounts payable	\$ 651	\$ —	\$ —	\$ —	\$ 651
Debt, contractual repayments of principal [(a)]	4,131,956	656,500	800,000	6,643,086	12,231,542
Debt, contractual payments of interest [(b)]	291,793	251,983	229,730	1,190,521	1,964,027
Loan swaps (pay fixed receive floating) [(b)]	254,376	247,043	233,418	2,202,329	2,937,166
Commitments for leases	37	97	98	248	480
Commitments for loans	281,500	30,000	—	—	311,500
Total	\$ 4,960,313	\$ 1,185,623	\$ 1,263,246	\$ 10,036,184	\$ 17,445,366

[(a)] Cash flows for debt contractual repayments of principal are determined with the assumption all debt is redeemed at the maturity date, and are presented net of discounts on short-term notes of \$3,044.

[(b)] Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table have been determined by reference to the conditions existing at the reporting date. Foreign currencies are translated at the foreign exchange rate as of the reporting date.

(in thousands of dollars, except share amounts)

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk:

Future Cash In Flows	2013	2014	2015	2016 and Beyond	Total
Accounts receivable	$ 8	$ —	$ —	$ —	$ 8
Loans, contractual repayments of principal [a]	352,419	1,064,810	988,528	9,982,478	12,388,235
Loans, contractual payments of interest [a]	522,150	493,879	454,139	3,991,876	5,462,044
Debt swaps (receive fixed pay floating) [a][b]	100,423	100,144	97,967	581,603	880,137
Total	$ 975,000	$ 1,658,833	$ 1,540,634	$ 14,555,957	$ 18,730,424

[a] The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties.

[b] Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table have been determined by reference to the conditions existing at the reporting date. Foreign currencies are translated at the foreign exchange rate as of the reporting date.

(d) Foreign Exchange Risk

Foreign exchange risk is the potential risk of loss resulting from fluctuations in foreign exchange rates. This risk arises from the existence of debt denominated in foreign currencies. ACFA manages its foreign currency exposure by entering into cross currency swaps. During 2012, ACFA issued $600,000 in US dollar denominated debt and concurrently entered into $600,000 in US dollar denominated cross currency interest rate swaps to mitigate the foreign exchange risk.

Note 11 – Contractual Obligations and Commitments

(a) Lease

ACFA has obligations under an operating lease expiring in July 2013, and under another operating lease commencing in July 2013 and expiring in July 2018, for the rental of premises. The aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Lease
2013	$ 37
2014	97
2015	98
2016	99
2017	99
2018	50
Total	$ 480

(in thousands of dollars, except share amounts)

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to certain conditions, and are recently authorized loans not yet drawn down or awaiting further draw down.

These loans are subject to ACFA's normal credit standards and collateral is obtained where appropriate. The loan commitments represent the maximum credit risk exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2012 were:

	2012
2013	$ 281,500
2014	30,000
Total	$ 311,500

Note 12 – Comparative Figures

Certain 2011 figures have been reclassified to conform to the 2012 presentation.

Note 13 – Budget

The 2012 budget was approved by the Board of Directors on December 8, 2011. Budget amounts for 2012 were prepared on an amortized cost basis except that amortization of deferred foreign exchange gains (losses) and changes in fair value of derivative contracts were not budgeted.

Note 14 – Approval of Financial Statements

The financial statements were recommended by the Audit Committee on March 18, 2013 for approval and subsequently approved by the Board of Directors on March 25, 2013.

SCHEDULE 1 – DEBT

As at December 31, 2012
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:					
01-Oct-2020		6.2800%	Fixed		$ 222,367
01-Jun-2022		6.0600%	Fixed		100,000
05-Apr-2023		5.8900%	Fixed		50,000
01-Dec-2023		5.5000%	Fixed		150,000
03-Dec-2024		5.1800%	Fixed		78,000
03-Nov-2026		4.4900%	Fixed		200,000
03-Nov-2031		4.5000%	Fixed		125,396
02-Nov-2032		4.8300%	Fixed		190,383
					1,116,146
Public – Short-term:					
04-Jan-2013		0.9850%	Short-term		150,000
07-Jan-2013		0.9900%	Short-term		200,000
08-Jan-2013		0.9900%	Short-term		200,000
14-Jan-2013		0.9950%	Short-term		100,000
04-Feb-2013		1.0050%	Short-term		125,000
14-Mar-2013		0.9876%	Short-term		130,000
20-Mar-2013		0.9800%	Short-term		125,000
21-Mar-2013		0.9800%	Short-term		200,000
				(iv)	1,230,000
Public – Fixed, Floating and Step-up/ Extendible:					
05-Feb-2013		1.3658%	Floating	(ii)	625,000
26-Apr-2013		1.3658%	Floating	(ii)	500,000
15-Jun-2013		1.2958%	Floating	(ii) (iv)	480,000
15-Jun-2013		1.2958%	Floating	(ii) (iv)	480,000
01-Oct-2013		1.4058%	Floating	(ii)	520,000
02-Dec-2013		5.0000%	Fixed		300,000
02-Jul-2014		1.6858%	Floating	(ii)	106,500
02-Jul-2014		1.6858%	Floating	(ii)	550,000
01-Jun-2015		4.9000%	Fixed		100,000
01-Jun-2015		4.9000%	Fixed		100,000
15-Jun-2015		3.0500%	Fixed		600,000
27-May-2016		1.4058%	Floating	(ii) (iv)	900,000
15-Jun-2016		4.3500%	Fixed		300,000
15-Jun-2016		4.3500%	Fixed		300,000

SCHEDULE 1 – DEBT

As at December 31, 2012
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
15-Jun-2017		4.6500%	Fixed		400,000
15-Jun-2017		4.6500%	Fixed		300,000
15-Jun-2017		1.7500%	Fixed	(iv)	500,000
21-Jun-2017		1.0000%	Fixed	(iii) (iv)	596,940
01-Jun-2018		5.1500%	Fixed		50,000
01-Jun-2018		5.1500%	Fixed		50,000
01-Dec-2019		4.0000%	Fixed	(iv)	275,000
15-Dec-2022		2.5500%	Fixed	(iv)	720,000
15-Dec-2022		2.5500%	Fixed	(iv)	600,000
28-Apr-2023	28-Apr-2014	3.0000%	Step-up/ Extendible	(i) (iv)	15,000
01-Dec-2023		5.1000%	Fixed		20,000
15-Dec-2025		4.4500%	Fixed		100,000
15-Dec-2025		4.4500%	Fixed		100,000
15-Dec-2025		4.4500%	Fixed		100,000
20-Sep-2029		2.9000%	Fixed	(iv)	30,000
20-Sep-2029		2.9000%	Fixed	(iv)	170,000
					9,888,440
Total contractual principal outstanding – 2012					**12,234,586**
Plus unamortized net premiums					15,289
Less unamortized commission fees					(15,910)
Total amortized debt – 2012					**$ 12,233,965**
Total contractual principal outstanding – 2011					10,798,646
Less unamortized net discounts					(4,659)
Less unamortized commission fees					(7,517)
Total amortized debt – 2011					$ 10,786,470

Notes:

(i) Step-up note extendible at ACFA's option that pays interest periodically at a predetermined rate with principal paid on termination.

(ii) Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate (CDOR) plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the reporting date plus the contractual predetermined spread.

(iii) Note issued as $600,000 USD and translated to $596,940 CAD using the foreign exchange rate as of the reporting date. ACFA is mitigating foreign exchange rate fluctuations using cross currency interest rate swaps such that the $617,400 CAD due at maturity equals the $617,400 CAD received at issuance.

(iv) Notes were on-lent from the Province of Alberta.

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